**From:** Sammy Levis
**Sent:** Friday, February 04, 2005 3:00 PM
**To:** Sammy Levis
**Subject:** MESSAGE FROM DL

MSL:

Just for yourself. We have $2.5 billion of those caps in place. But so far their price (valuation) has not moved up with Libor rates. Should Libor rates increase considerably, the caps will move up in value.

Keep on doing well in Boston.

DL

-----Original Message-----
From: Ryan Schaper [mailto:RSchaper@FarallonCapital.com]
Sent: Thursday, February 03, 2005 4:16 PM
To: Sammy Levis
Subject: Doral

Hey Sammy

Thanks a lot for taking all the time to explain the IOs to us over this past week. It all makes much more sense now. The caps are so key to the whole story. I was thinking that you may be able to account for the embedded cap as a sort of a free GAAP hedge. As short rates rise, the intrinsic value of that embedded cap rises. You can even get dealer quotes pretty easily for 5% caps at a 7 year duration (matching your portfolio). Use the dealer quotes to mark the value of the embedded cap every quarter. So if rates rise, the change in the valuation of the cap would rise (something you can easily verify as caps are a liquid market), offsetting the impact of rising libor on the residual. This would basically be a hedge to the GAAP volatility of the IO. I am sure you guys have thought through everything, but I thought this an interesting possibility.

You could even essentially sell the embedded cap through the sale of a cap or a call option on a cap of similar charactoristics to create the gain on your P&L as rates rise.

Take care and have a great trip to Switzerland Ryan Incoming mail is certified Virus Free.
Checked by Doral Financial Corporation anti-virus system (http://www.doralfinancial.com).

| Tracking: | Recipient | Delivery | Read |
|---|---|---|---|
| | Sammy Levis | Delivered: 2/4/2005 3:00 PM | Read: 2/4/2005 4:19 PM |



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